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China's Demands Anger Congress, May Hurt Bid

By Jonathan Weisman
Washington Post Staff Writer
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Members of Congress from both political parties reacted with angry surprise yesterday to the Chinese government's demand that they correct their "mistaken ways" and "stop interfering" with a Chinese company's bid to acquire a U.S. oil firm.

Lawmakers suggested the broadside would only toughen Washington's scrutiny of the proposed takeover of Unocal Corp. by CNOOC Ltd., a Chinese energy firm controlled by the government.

"How are they going to demand anything of us, elected members of the Congress, the highest branch of the government?" asked Rep. Carolyn Cheeks Kilpatrick (D-Mich.), author of a House amendment, approved last week 333 to 92, that would cut off funds for a federal security review needed to allow the deal to proceed. "We're a democracy. We're not communists."

"At the very least, they have solidified -- if not exacerbated -- concerns of members of Congress here, by telling Congress to butt out," said Brian Kennedy, a spokesman for Rep. Richard W. Pombo (R-Calif.), chairman of the House Resources Committee. Pombo was co-author of a resolution, passed 398 to 15, expressing concern that the takeover bid could threaten national security.

Since CNOOC made its unsolicited, \$18.5 billion bid for Unocal, CNOOC officials and their representatives in the United States have been careful to distance the company from the Chinese government and to paint the transaction as purely a business venture. But the Chinese Foreign Ministry upset that orchestration Monday with a prepared, strongly worded statement addressed directly to Congress.

"We demand that the U.S. Congress correct its mistaken ways of politicizing economic and trade issues and stop interfering in the normal commercial exchanges between enterprises of the two countries," the ministry wrote. "CNOOC's bid to take over the U.S. Unocal company is a normal commercial activity between enterprises and should not fall victim to political interference."

Many members of Congress view CNOOC's bid as anything but "a normal commercial activity." Unocal's board of directors had already accepted a \$16.5 billion bid in cash and stock from a U.S. oil company, Chevron Corp., and CNOOC's unsolicited entry coincided with China's very public efforts to secure energy reserves for its rapidly rising demand. Anti-Chinese sentiment in Congress has been building for several years over charges of currency manipulation, intellectual property theft and other unfair trade practices.

Chevron, in turn, has stoked those fears with its own lobbying effort, designed to link CNOOC to

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Chinese government policy aims. Officials at Chevron, the nation's second-largest oil company, have portrayed their efforts to buy Unocal as a David fighting the unlimited resources of the Chinese government's Goliath.

"This is a government buying a commercial company and moving probable [oil and gas] reserves from the market to government holdings," Peter J. Robertson, Chevron's vice chairman, said in an interview last week. "This is not free trade. This is unfair trade."

By demanding that the House repudiate its votes, the Chinese government may have played into Chevron's hands. "I don't think 333 people who represent millions of Americans all over this country made a mistake," Kilpatrick said. "They knew exactly what they were doing."

"When the Chinese government acts like they do nothing wrong and they can rattle a saber at everyone, they are not helping their cause," said Sen. Charles E. Schumer (D-N.Y.), co-author of a bill that would slap steep tariffs on Chinese goods if the government fails to revalue its currency.

And Rep. John D. Dingell (D-Mich.), the longest-serving current member of the House, plans to announce today the reintroduction of another bill that would crack down on currency manipulation

Wall Street also viewed the Chinese statement as potentially damaging. "CNOOC now probably has to do a significant public relations blitz and open up its books and show that they do in fact operate independently," said Jeb S. Armstrong, energy analyst at Argus Research Co. "But that's probably not going to happen."

Chevron stock rose \$1.59 to \$58.56 a share yesterday, perhaps reflecting investor belief that the Chinese statement strengthened Chevron's hand and lessened chances that the company will have to significantly increase its offer. The increase in the stock price pushed the value of Chevron's bid to \$16.7 billion.

Officials at Public Strategies Inc., which is handling public relations for CNOOC, would not comment on the Chinese Foreign Ministry statement. But officials in Washington and New York who are close to CNOOC said the government had made their already difficult job considerably more challenging.

Bush administration officials were not surprised by the statement, however. For several months, administration officials have warned China that they could hold off anti-China sentiments for only so long. If the government fails to respond to trade concerns, eventually Congress will act. But Chinese officials have repeatedly showed their belief that Congress is more beholden to White House wishes than in fact it is, administration officials say.

Staff writer Ben White contributed to this report.

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